



OFFICE OF AUDITOR OF STATE
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David A. Vaudt, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE _____ September 25, 2012

Contact: Andy Nielsen
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Auditor of State David A. Vaudt today released a report on the six divisions of the Iowa Department of Commerce for the year ended June 30, 2011.

The Department coordinates and administers the various regulatory, service and licensing functions relating to the conduct of business or commerce in the state.

Vaudt recommended certain Divisions within the Department increase controls over receipts, payroll and financial reporting. The Divisions responded favorably to these recommendations.

A copy of the report is available for review in each of the six divisions of the Iowa Department of Commerce, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/1260-2110-BR00.pdf>.

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**REPORT OF RECOMMENDATIONS TO THE
IOWA DEPARTMENT OF COMMERCE**

JUNE 30, 2011

Office of
**AUDITOR
OF STATE**

State Capitol Building • Des Moines, Iowa



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Auditor of State



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September 20, 2012

To JoAnn Johnson, Director of the
Iowa Department of Commerce:

The Iowa Department of Commerce is a part of the State of Iowa and, as such, has been included in our audits of the State's Comprehensive Annual Financial Report (CAFR) and the State's Single Audit Report for the year ended June 30, 2011.

In conducting our audits, we became aware of certain aspects concerning the Department's operations for which we believe corrective action is necessary. As a result, we have developed recommendations which are reported on the following pages. We believe you should be aware of these recommendations, which include those pertaining to the Department's internal control and compliance with statutory requirements and other matters. These recommendations have been discussed with Department personnel and their responses to these recommendations are included in this report. While we have expressed our conclusions on the Department's responses, we did not audit the Iowa Department of Commerce's responses, and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials and employees of the Iowa Department of Commerce, citizens of the State of Iowa and other parties to whom the Department may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Department during the course of our audits. Should you have questions concerning the above matters, we shall be pleased to discuss them with you at your convenience. Individuals who participated in our audits of the Department are listed on page 13 and they are available to discuss these matters with you.

DAVID A. VAUDT, CPA
Auditor of State

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

cc: Honorable Terry E. Branstad, Governor
David Roederer, Director, Department of Management
Glen P. Dickinson, Director, Legislative Services Agency

Iowa Department of Commerce

Report of Recommendations to the
Iowa Department of Commerce

June 30, 2011

Findings Reported in the State's Single Audit Report:

No matters were noted.

Findings Reported in the State's Report on Internal Control:

No matters were noted.

Other Findings Related to Internal Control:

(A) Insurance Division

- (1) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. When duties are properly segregated, the activities of one employee act as a check on those of another. Generally, one individual may have control over the collection, deposit preparation, posting, maintaining receivable records, reconciliation, recording and accounting for cash receipts for which no compensating controls exist. A listing of mail receipts is not prepared by the mail opener, at least on a test basis.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the Division should review its operating procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including employees of other Divisions.

Response – The Division has encouraged industry filers to file electronically which results in using ACH transfers instead of paper checks. We still receive a high volume of paper checks which are immediately endorsed to the Insurance Division upon the opening of our mail. We lack sufficient staff to further segregate duties or add additional responsibilities for the mail opener.

Conclusion – Response acknowledged.

- (2) Securities Bureau Receipts – The Securities Bureau receives funds which are recorded in separate databases maintained within the Bureau and are then sent to accounting to be deposited and recorded in the Integrated Information for Iowa (I/3) system. The receipts recorded in the databases are not reconciled to deposits recorded in the I/3 system.

Recommendation – To improve controls over the receipt process, receipts posted in the Securities Bureau databases should be periodically reconciled to the deposits recorded in the I/3 system.

Response – The staff person primarily in charge of receipt and recording of securities fees had to retire due to health reasons. Backup staff is working to maintain existing processes and stay current. When the position is filled later this year, we will study whether there is sufficient time to randomly review the deposit and the database to make sure the amounts are correct.

Conclusion – Response accepted.

Report of Recommendations to the
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- (3) Payroll – The Division processes and records payroll and personnel information on the Human Resource Information System (HRIS). One employee may utilize an online P-1 document to initiate and approve payroll actions, such as adding new employees and recording pay raises. This individual also has the ability to initiate and approve timesheets. In addition, for the period April 1, 2010 through March 25, 2011, thirteen P-1 documents were initiated and received department level approval by the same person.

Recommendation – To strengthen controls, the Division should develop and implement procedures to segregate the duties of the Human Resources Associates from the duties of payroll utilizing currently available staff, including employees of other divisions.

Response – The Division Budget Director reviews and signs for payroll. The Budget Director randomly reviews payroll information to verify current pay is accurate. The Division lacks staff to further segregate duties.

Conclusion – Response acknowledged.

(B) Banking Division

Payroll – The Division processes and records payroll and personnel information on the Human Resource Information System (HRIS). Two employees may utilize an online P-1 document to initiate and approve payroll actions, such as adding new employees and recording pay raises. These individuals also have the ability to initiate and approve timesheets.

Recommendation – To strengthen controls, the Division should develop and implement procedures to segregate the duties of the Human Resources Associates from the duties of payroll.

Response – The payroll journal finals will be reviewed and signed by the Bank Bureau Chief, Vaughn Noring.

Conclusion – Response accepted.

(C) Utilities Board

- (1) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. When duties are properly segregated, the activities of one employee act as a check on those of another. Generally, one individual may have control over collection, deposit preparation, posting, maintaining receivable records, reconciliation, recording and accounting for cash receipts for which no compensating controls exist. A listing of mail receipts is not prepared, at least on a test basis.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the Board should review its operating procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including employees of other Divisions.

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Response – The Iowa Utilities Board (IUB) has developed specific internal control procedures to segregate the duties of cash receipts and the receivable journal, within the constraints of the limited staff employed in the Accounting and Assessments section. In fiscal year 2011, the Accounting and Assessments Team had only two members for nearly six months. A third team member was hired near the end of the fiscal year. With only two staff people, segregation of duties was not always possible. An initial listing of receipts is not considered a top priority task because the list of receipts is prepared when the deposit is made. Having a different section, the Records Center, make a list of the receipts that come in the mail would delay the deposit of the checks and increase the possibility of a check being separated from the invoice/payment coupon it was mailed with. The checks we receive are for invoices we have mailed to the companies. The invoices are listed on our receivable file and are accounted for through the deposit.

Conclusion – Response acknowledged. However, the Board should review its operating procedures to obtain the maximum internal control possible under the circumstances.

- (2) Receipts – Checks were not restrictively endorsed upon receipt by the mail opener.

Recommendation – A restrictive endorsement (for deposit only) should be placed on all checks when received.

Response – The IUB mail person takes the mail back to the Records Center area. Envelopes are slit open to confirm contents. Checks are not removed from the envelopes, and they are delivered to Accounting and Assessments staff the same day the checks are received. The Accounting and Assessments Team endorses all checks. This process has worked for IUB. Checks have not been lost, taken or delayed for deposit. The risk of having a check separated from the invoice/payment coupon increases if two sections handle each check. We believe it is best to have Accounting handle the financial tasks and Records Center staff handle their specific tasks.

The IUB is in conversation regarding efforts to move to an electronic format. This would reduce the number of checks received.

Conclusion – Response acknowledged.

- (3) Receipt Reconciliation – The Board receives funds which are recorded in a separate receivables journal maintained by accounting and then deposited and recorded in the I/3 system. The receipts recorded in the receivables journal are not reconciled to deposits recorded in the I/3 system.

Recommendation – To improve controls over the receipt process, receipts posted in the receivables journal should be periodically reconciled to the deposits recorded in the I/3 system.

Response – The Accounting and Assessments Team did not have adequate staffing to perform this in fiscal year 2011. In fiscal year 2012, the team was fully staffed and a new process commenced to provide a detailed list for every deposit.

Conclusion – Response accepted.

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- (4) Financial Reporting – The Board records receipts and disbursements in the I/3 system throughout the year, including the accrual period. Activity not recorded in the I/3 system is reported to the Iowa Department of Administrative Services – State Accounting Enterprise (DAS – SAE) on a GAAP package. The GAAP package is to be submitted to DAS – SAE by the first week of September each year. The following were noted:

- (a) A \$307,971 receivable which was collected on September 27, 2011 was not reported on the GAAP package as required. As a result, the Board understated accounts receivable and deferred revenue by \$307,971.
- (b) The Board expended \$50,000 in fiscal year 2011 for which federal reimbursement had not been received. This item should have been recorded as a receivable on the GAAP package.

Recommendation – The Board should ensure the GAAP package information reported is complete and accurate.

Response – The IUB does its best to complete the GAAP package timely and correctly. During the exit conference, the IUB suggested the State Auditor work collaboratively with the GAAP Team to offer a course on completing the GAAP Report. With tenured staff nearing retirement, it is important an effort be made to instruct team members who will need to step up and take over reporting responsibilities. Being proactive could help ensure proper GAAP Package information is reported. The IUB will work to educate our backup staff about the GAAP package information to be reported.

Conclusion – Response accepted.

- (5) Assessment of Division Expenses – As allowed by Chapter 473.10 of the Code of Iowa, the Board may, at its discretion, allocate and charge directly the expenses attributable to its duties to the person bringing a proceeding before the Board or to persons participating in matters before the Board. The Board is to ascertain the total of the Board's expenses incurred during each fiscal year in the performance of its duties under law. Not more than ninety days following the close of the fiscal year, the Board shall confirm the amount of the prior fiscal year's assessments. Although the Board billed assessments during the year, the Board did not confirm the fiscal year 2011 final assessments until May 4, 2012.

In addition, a timely reconciliation between assessments billed and received to those recorded in I/3 was not performed.

Recommendation – The Board should develop procedures to ensure timely compliance with the Code of Iowa. In addition, procedures should be developed to timely reconcile assessment receipts to the I/3 system.

Response – As stated previously, in fiscal year 2011, the Accounting and Assessments Team had only two members for nearly six months. We were behind on tasks. The team is now fully staffed and working on completing fiscal year 2012 within the set parameters.

Conclusion – Response accepted.

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(D) Alcoholic Beverages Division

- (1) Leave Requests on Computer Software – The Division records vacation and sick leave requests on computer software. Upon entering the leave on the software calendar, the request is routed to the appropriate supervisor for approval. Once approved by the supervisor, the hours recorded should not be modified. Approval, edit and delete functions can be performed by seven employees. There are no restrictions in the software to prevent these employees from accessing and modifying the recorded leave hours after approval.

Recommendation – The Division should strengthen controls over the computer software to prevent modification by employees after supervisor approval.

Response – The Division will work to enhance restrictions in the current computer software so requests for leave may not be modified after supervisory approval. In addition, the Division will research the Department of Administrative Services eLeave service to determine if this Enterprise application would be an acceptable alternative to the current computer software and provide sufficient controls to prevent modification by employees.

Conclusion – Response accepted.

- (2) Unrecorded Receipts - Departments record revenues and expenditures in the I/3 system throughout the year, including the accrual period. Revenue for goods or services provided prior to the fiscal year end and received prior to the end of the hold open period should be coded to the prior fiscal year. Two of the eight items tested were improperly coded to fiscal year 2012 for licenses issued in fiscal year 2011. The Division understated accounts receivable and revenue by \$200,463.

Recommendation – The Division should implement cutoff procedures to ensure all transactions are coded to the proper fiscal year and revenues are accrued accurately.

Response – Staff in the accounting section will assign a second individual to review and verify all receipts received after the end of the fiscal year have been coded to the proper fiscal year. In addition, all receipts deposited during the hold open period will be reviewed timely to identify improperly coded transactions and corrections shall be made immediately.

Conclusion – Response accepted.

- (3) Penalty Fee – Chapter 123.137 of the Code of Iowa requires a Class “A” permit holder to submit a report of the prior month’s barrel sales to the Division by the 10th of the month with the amount of tax due. Reports not submitted prior to the 10th will incur a 10% penalty fee. The Division is not tracking the receipt date of the barrel sales reports.

Recommendation – The Division should develop a procedure to document the date barrel sales reports are received. Initiation of a dating procedure would allow the Division to enforce a 10% penalty for those reports not received within the specified timeframe.

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Response – As of July 1, 2012, the Division has implemented a new online beer and wine tax reporting program. The program tracks the receipt date of the Class “A” permit holder’s barrel sales report. The program also automatically assesses a 10% penalty fee to the tax due on any reports not submitted by the 10th of the month.

Conclusion – Response accepted.

- (4) Inventory Breakage – Inventory breakage by warehouse workers is reported to a lead worker as soon as breakage occurs. The lead worker records the type and amount of inventory broken on a “Warehouse Breakage” report which is not prenumbered. The lead worker gives the Warehouse Breakage report to an order entry employee who records the loss on the computer system. The order entry employee initials the Warehouse Breakage report and gives it to an employee in accounting who verifies the warehouse breakage report was correctly entered in the computer system. The accounting employee initials the Warehouse Breakage report and files it.

For the two months selected for testing, five bottles with values totaling \$34 could not be traced to a Warehouse Breakage report. In addition, 30 bottles with values totaling \$293 were not verified as correctly entered in the computer system by an employee in accounting. Also, 2 bottles documented on the Warehouse Breakage report were not recorded in the monthly journal entry report.

Recommendation – The warehouse worker who identifies the breakage should sign off on the “Warehouse Breakage” report in addition to the lead worker preparing the report. This would require two individuals to verify the breakage. In addition, the Warehouse Breakage reports should be reviewed for accuracy on a random basis by a member of management. The Warehouse Breakage reports should be prenumbered. Also, the monthly journal entry report should be reviewed for accuracy and compared to the Warehouse Breakage reports.

In addition, an electronic report of breakage which can be reviewed and analyzed, as necessary, should be implemented.

Response – The Division implemented a new warehouse and inventory management system on July 1, 2011. With the new Warehouse Management System (WMS), all breakage is scanned by the warehouse worker and immediately removed from the inventory.

Conclusion – Response accepted.

- (5) Driver Time Reporting – The Division currently has 17 truck drivers. Truck drivers are required to complete a driver’s daily log documenting the time worked. According to a Division representative, truck drivers submit the driver’s daily logs to the Warehouse Supervisor after each shift or each week. The Warehouse Supervisor completes a timesheet at the end of the two week period for each driver based on the driver’s daily logs completed by the truck drivers. The personnel assistant receives these timesheets and verifies the information.

Timesheets selected for testing did not include a supervisor’s signature to approve the timesheets.

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Recommendation – Truck driver timesheets should be approved by a supervisor.

Response – Since the initial audit findings, the Division has mandated the warehouse supervisor sign all driver timesheets.

Conclusion – Response accepted.

- (6) Procurement Cards – The Division issues procurement cards to designated employees for use in purchasing office supplies, facility maintenance supplies and other supplies, as necessary.

The rules governing the use of these cards are outlined in the Iowa Department of Administrative Services – State Accounting Enterprise (DAS - SAE) Purchasing Card Program Procedures Manual. Section 4.6 of the Purchasing Card Program Procedures Manual states each and every purchase must be supported by the vendor's original receipt. Also, section 4.5 notes all purchases to the program are to be sales tax exempt. In addition, section 4.8 requires the cardholder to send all supporting documentation to their agency accountant on a timely basis to ensure costs can be properly reconciled and processed on a timely basis to avoid late fees.

The following were noted:

- The Division's purchase of an ice machine for \$3,732 may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented.
- Three monthly statements were not paid within 25 days of the statement date as required by the Purchasing Card Program Procedures Manual.
- Sales tax totaling \$25 was paid on several transactions.
- Nine of the twenty-seven transactions tested did not have proper supporting documentation for the transaction. Vendor receipts did not include required information, such as vendor name, amount due, date and an itemized description of the items purchased.

Recommendation – The Division should ensure all purchases made with procurement cards are properly supported and comply with the Purchasing Card Program Procedures Manual. In addition, the Division should determine and document the public purpose served by disbursements prior to authorizing payments.

Response – The Division now requires management to review all invoices prior to payment to ensure purchases meet the requirements of public purpose and submit documentation to accounting staff timely to ensure payments are made within 25 days of the statement date. Additionally, employees who are issued a procurement card will be required to become familiar with the Purchasing Card Program Procedures Manual so each employee can verify at the time of purchase the original receipt includes required information and no sales tax is charged for the transaction.

Conclusion – Response accepted.

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Finding Related to Statutory Requirements and Other Matters:

Insurance Division

Untimely Reversion – Chapters 502.601 and 8.33 of the Code of Iowa require unencumbered or unobligated moneys remaining in the Securities Investor Education and Financial Literacy Training Fund which exceed \$500,000 on June 30 to revert to the General Fund on August 31 following the close of each fiscal year. The transfer of excess funds was not made until January 2012.

Recommendation - To ensure compliance with the Code of Iowa, the Division should develop and implement procedures to transfer excess money to the General Fund in a timely manner.

Response – The Division will implement a procedure which requires the budget director to send to the accounting unit a list of obligated moneys in addition to the retained \$500,000 by July 31 after the end of the fiscal year. The excess unobligated monies will be promptly reverted by the accounting unit upon receipt of the list. Both the budget director and accounting unit will place weekly reminders on electronic calendars during the month of August. The reversion for fiscal year 2012 was made September 7, 2012.

Conclusion – Response accepted.

Report of Recommendations to the
Iowa Department of Commerce

June 30, 2011

Staff:

Questions or requests for further assistance should be directed to:

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Selina V. Johnson, CPA, Senior Auditor II
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Other individuals who participated in the audits include:

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